



Warranty Advance Programs

Third Party Administrator vs Manufacturer Comparison

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WARRANTY ADVANCE PROGRAMS

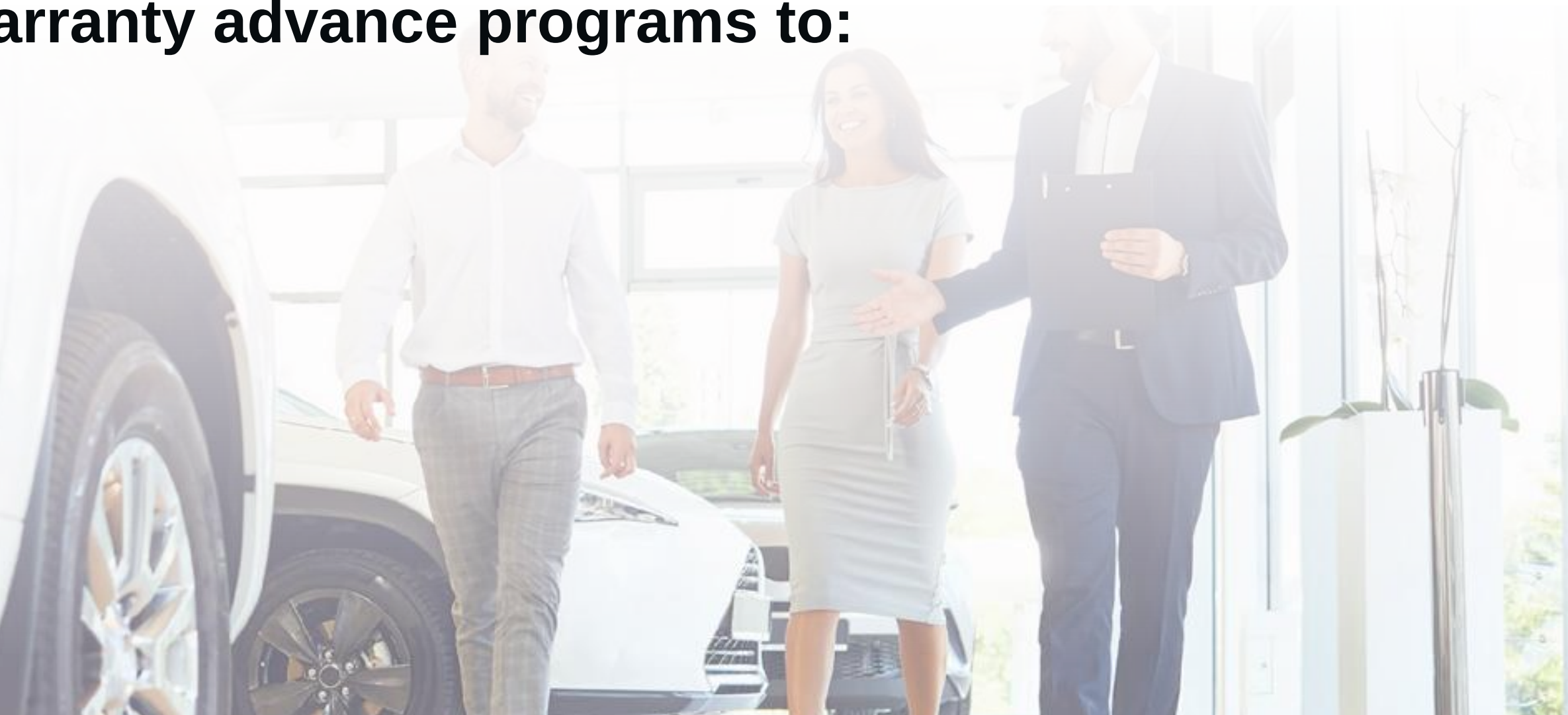
- Funding arrangement between the warranty provider and dealership
- Dealership receives a lump sum advance payment against future earnings
- Dealership commits to selling the provider's products
- Advance is paid over time through these product sales



LEVERAGING WARRANTY ADVANCE PROGRAMS

Dealerships often leverage warranty advance programs to:

- Unlock immediate capital
- Acquire new stores
- Partner buyout
- Facilities improvement
- Hire and retain personnel



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MANUFACTURER (OEM) WARRANTY ADVANCE PROGRAMS

Most auto manufacturers (OEMs) offer an extended warranty or service contract programs, for example:





ADVANTAGES OF OEM WARRANTY ADVANCE PROGRAMS

- **Brand Trust and Marketability:** OEM warranties are perceived as more reliable or safe
- **Simplicity and Ease of Use:** low administrative burden on the dealership means minimal extra overhead
- **No Financial Obligation or Payback:** if warranty sales decrease, the dealers isn't required to pay back any advance funds out of pocket
- **Potential OEM Incentives:** while manufacturers don't give advances, they occasionally run incentive programs (spiffs)



DISADVANTAGES OF OEM WARRANTY ADVANCE PROGRAMS

- **Opportunity Cost of Tied-Up Capital:** a passive stream of income rather than a strategic financial tool
- **Potential Pressure to Sell OEM Only:** offering other warranty programs is discouraged by the OEM and the dealership could face pushback from the OEM if they do offer an alternative
- **Limited Involvement in F&I Portfolio:** OEM warranty advance programs do not provide training for the dealer's F&I department



THIRD PARTY ADMINISTRATION WARRANTY ADVANCE PROGRAMS

There are multiple third-party administrators (TPAs) that offer warranty advance programs, for example:

- **TMG has secured \$50 million in advances through TPAs over 10 years**
- **TMG recently expanded its TPA partners which resulted in securing \$100 million in warranty advances for dealerships**



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THIRD PARTY ADMINISTRATOR (TPA)

WARRANTY ADVANCE PROGRAMS

TPAs are independent warranty/service contract providers that offer dealer capital advance programs that:

- **Offer Up-Front Funding:** provide a significant lump-sum advance that can be used for any purpose; working capital, inventory acquisition, facility upgrades, and expansion
- **Exclusivity & Term:** The dealer agrees to an exclusive arrangement to sell the TPA's F&I products
- **Repayment Structure:** allow the advance to be repaid through product sales over the term
- **Cost of Fund:** offer advances at low effective interest cost



ADVANTAGES OF TPA WARRANTY ADVANCE PROGRAMS

- **Immediate Capital for Growth:** dealer receives up-front cash infusion, improving cash flow to use immediately
- **Underwriting Profit Participation:** TPAs often allow the dealer to participate in the back-end profits of the warranties, including reinsurance and retro programs
- **Operational Flexibility and Control:** dealer has more flexibility in product offerings and program structure, and can customize their F&I product suite (VSC, GAP, tire & wheel, windshield)
- **Potential Tax and Estate Earnings:** dealer-owned reinsurance can have tax deferral benefits and can build an asset that can be sold or passed on within the estate



DISADVANTAGES OF TPA

WARRANTY ADVANCE PROGRAMS

- **Exclusive Commitment Required:** TPAs require an exclusive commitment to their products, which limits flexibility. The dealer cannot freely switch warranty providers or sell competing warranty products without breaching the contract
- **Performance Obligations and Risk:** The dealership must meet volume and performance benchmarks, and if benchmarks are not met, TPA may require the dealer to repay an outstanding balance
- **OEM Constraints:** Receiving a warranty advance from a TPA can conflict with the dealership's goals and obligations to the OEM



QUESTIONS AND NEXT STEPS

Contact The Muldrow Group to learn more about how we can help drive your success and take your business to the next level.

Exclusive Conference Offer:

- **Visit our booth during the conference to schedule a complimentary 4-hour virtual consultation of your current warranty advance program (if in person is required, dealership pays travel expenses)**

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THANK YOU!



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